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21st Annual Report

FOR THE YEAR ENDED MARCH 31, 1971

CANADIAN OVERSEAS TELECOMMUNICATION CORPORATION



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“THE WORLD AT YOUR CALL”



CABLEGRAMS • TELEPHONE • INTERNATIONAL TELEX
PHOTO-TELEGRAMS • LEASED CIRCUITS

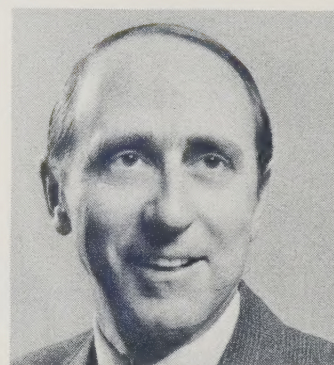
BOARD OF DIRECTORS



R. G. LEFRANÇOIS
President
Nordair Limited
Montreal, Que.
(appointed December 4, 1970)



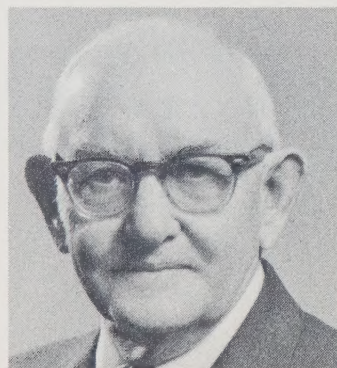
DOUGLAS F. BOWIE
Chairman



F. MERCIER, Q.C.
Stikeman Elliott Tamaki
Mercier & Robb
Montreal, Que.



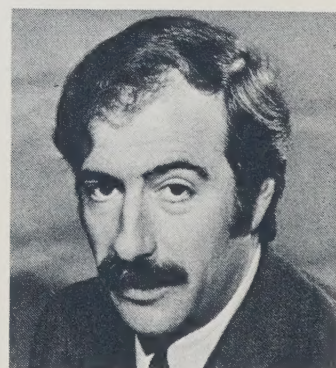
GILLIS PURCELL
Toronto, Ont.



E. BRAGG
President
Bragg Lumber Company
Collingwood, N.S.



W. S. PIPES
Vancouver, B.C.



DE MONTIGNY MARCHAND
Assistant Deputy Minister,
Operations
Department of Communications
Ottawa, Ont.
(appointed March 25, 1971)

R. R. LEVINE (deceased October 3, 1970)

GILLES BERGERON (resigned December 23, 1970)

MANAGEMENT



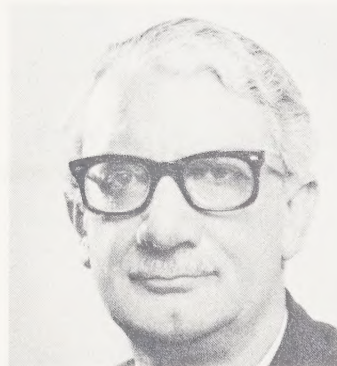
DOUGLAS F. BOWIE
*President and
General Manager*



GORDON M. WATERHOUSE, C.A.
Vice-President, Finance



CECIL S. GREGORY
Vice-President and Secretary



ERNST ELIASSEN, M.Sc., Eng.
*Vice-President, Engineering
and Operations*

CANADIAN OVERSEAS TELECOMMUNICATION CORPORATION

625 BELMONT STREET, MONTREAL 101

THE PRESIDENT'S REPORT

May 31, 1971

THE HONOURABLE GÉRARD PELLETIER,
ACTING MINISTER OF COMMUNICATIONS,
OTTAWA.

Sir,

This, our Twenty-First Report, covering the fiscal year ended 31st March, 1971, is submitted on behalf of the Board of Directors.

FINANCIAL

The main items for the period under review, as well as those for the previous year, appear in the following summary :

	Year ended March 31		Increase (decrease) from 1970
	1971	1970	
Income - - - - -	\$33,582,193	\$33,155,108	1%
Depreciation - - - - -	6,426,700	7,255,017	(11%)
Interest on Government Advances - -	2,277,301	2,457,920	(7%)
Income Tax - - - - -	5,654,000	6,470,000	(13%)
Net Profit for Year - - - - -	5,355,061	6,132,444	(13%)

Financial Statements for the twelve months ended March 31st, 1971, submitted herewith, have been audited by the Auditor General and a copy of his report is included.

The following schedule illustrates the increases (decreases) in revenue realized by the major services provided by the Corporation:

Telegraph - - - - -	9.5%
Telephone - - - - -	15.5%
International Telex - - - - -	9.7%
Leased Circuits - - - - -	(25.4%)

For the first time in six years there was a decrease in net profit as compared with the previous year. Paid minutes for telephone and telex traffic increased significantly by 45% and 38% respectively and it was necessary to incur considerable costs in leasing the additional satellite facilities required to handle this traffic growth. However, revenue from these services did not increase proportionately due to rate reductions, which are referred to later in this Report. In addition, our leased circuit revenue decreased by 25.4% during the year, reflecting both lower rates and a number of terminations.

GENERAL

This being the 21st Annual Report of the Corporation, a general review of the progress made during those years by comprehensive graphs of financial growth has been included at pages 8 and 9.

As regards the year under review, the 49-day strike of the British Post Office staff caused our telegraph services with Britain to be completely cut off resulting in a substantial loss of revenue on that account. On the other hand many countries which normally use Britain as a transit point switched their traffic via Canada and the net result was an increase in telegraph revenue.

At the beginning of the fiscal year we made substantial reductions in our telephone and telex rates to Europe and it is a pleasure to record that revenues from the telephone service increased by about 15.5% and from telex by 9.7%. Part of this, however, was undoubtedly due to customers using those services to Britain during the strike in lieu of telegraph.

Unfortunately the opening of the computerized automatic Telex switching system which had been expected to be ready for service in October was badly delayed owing to some of the components provided by the contractor being unsatisfactory but the replacements have now been provided and the new system is expected to be in service within the next month. The delay in completion of the system seriously compounded our problem of communication with Britain during the strike and the extra load created thereby caused some substantial delays in service.

Leased circuit revenues declined because of the cancellation of some leases by United States carriers who started using satellite circuits from American-based earth stations and a substantial reduction in the charges for a system used by the American forces — the original cost having been completely amortized being justification for the reduction. Our annual expenses on this account were correspondingly lower.

The Canada-Bermuda Cable was further delayed but it is now completed and was brought into service on May 24th.

As mentioned in last year's Report, our available cable capacity across both the Atlantic and the Pacific was completely occupied and a lengthy study of the feasibility of laying a very large capacity cable between Canada and Britain was completed. An agreement between the British Post Office and the Corporation was duly reached and work has now been started on the new cable which will have a capacity of 1840 two-way voice circuits and which will land in Nova Scotia and in Cornwall, England. It will be completed in 1974 with a calculated life-expectancy of twenty-five years.

THE PRESIDENT'S REPORT (CONTINUED)

A number of European countries have indicated their interest in buying into the cable for the purpose of expanding their facilities with Canada.

Traffic forecasts up to the year 1985 indicate that we shall have a requirement of up to 5,000 trans-Atlantic circuits by that time and the slack will be taken up by expanded use of the Satellite System. The rapid expansion envisaged will derive largely from the introduction of Direct Distance Dialling and the likelihood of further rate reductions, both of which will develop increased traffic and will call for the availability of considerably more circuits. The combination of the two media will provide us with the greatest possible degree of alternate routing in case of failure of either system.

As regards the Pacific area, a contract has been awarded to RCA Limited for the construction of an earth station at Lake Cowichan, B.C., due for completion in 1972, and for some years at least this will provide adequate capacity in that area.

As more and more countries install earth stations, we shall be able to establish direct operations with them via Satellite and this is a trend which should continue. We now have direct operations with 42 countries as compared with 5, and we operate 400 telephone, 426 telegraph and Telex circuits — a total of 826 for direct and transit operational purposes as compared with 3 telephone and 13 telegraph when the Corporation was founded in 1950.

In recent Reports reference has been made to the Plenipotentiary Conference on Definitive Arrangements for the International Satellite Consortium. During the year under review an Intersessional Working Group held three sessions in Washington with the result that the resumed Conference was able to agree on definitive arrangements for INTELSAT. The inter-governmental and operating agreements will be opened for signature in Washington on August 20, 1971. Present traffic forecasts indicate that the Corporation's ownership in INTELSAT, which will be based on use of the system, will remain at approximately 3¼% — the fifth largest user in the 79-nation Consortium.

The Commonwealth Telecommunications Council held its Fifth Meeting in Montreal during the month of September and some further progress was made towards the setting up of new Unified Accounting arrangements. It is expected that these can be finalized by mid-Summer 1972 at a Commonwealth Conference scheduled to be held next year in Ottawa.

During the year under review, Mr. Cecil S. Gregory, Vice-President and Secretary, retired after 48 years of service in telecommunications. Messrs. K. L. Spark, Area Manager, Western Area and C. H. R. Bird, Chief, Operations, also retired after 42 and 43 years of service respectively with both the Corporation and its Predecessor Companies.

It is with deep regret that we record the death of Mr. Ralph R. Levine, an active and respected member of our Board of Directors, and Mr. T. E. Laderoute, an Officer of the Corporation with 45 years of service in telecommunications.

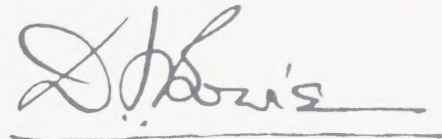
SERVICES

As indicated on the first page of this Report, the majority of our services showed substantial increases in revenue.

The loss of certain circuit leases, as well as reductions of rental charges in those retained, resulted in a decrease in revenue from this source.

ACKNOWLEDGMENT

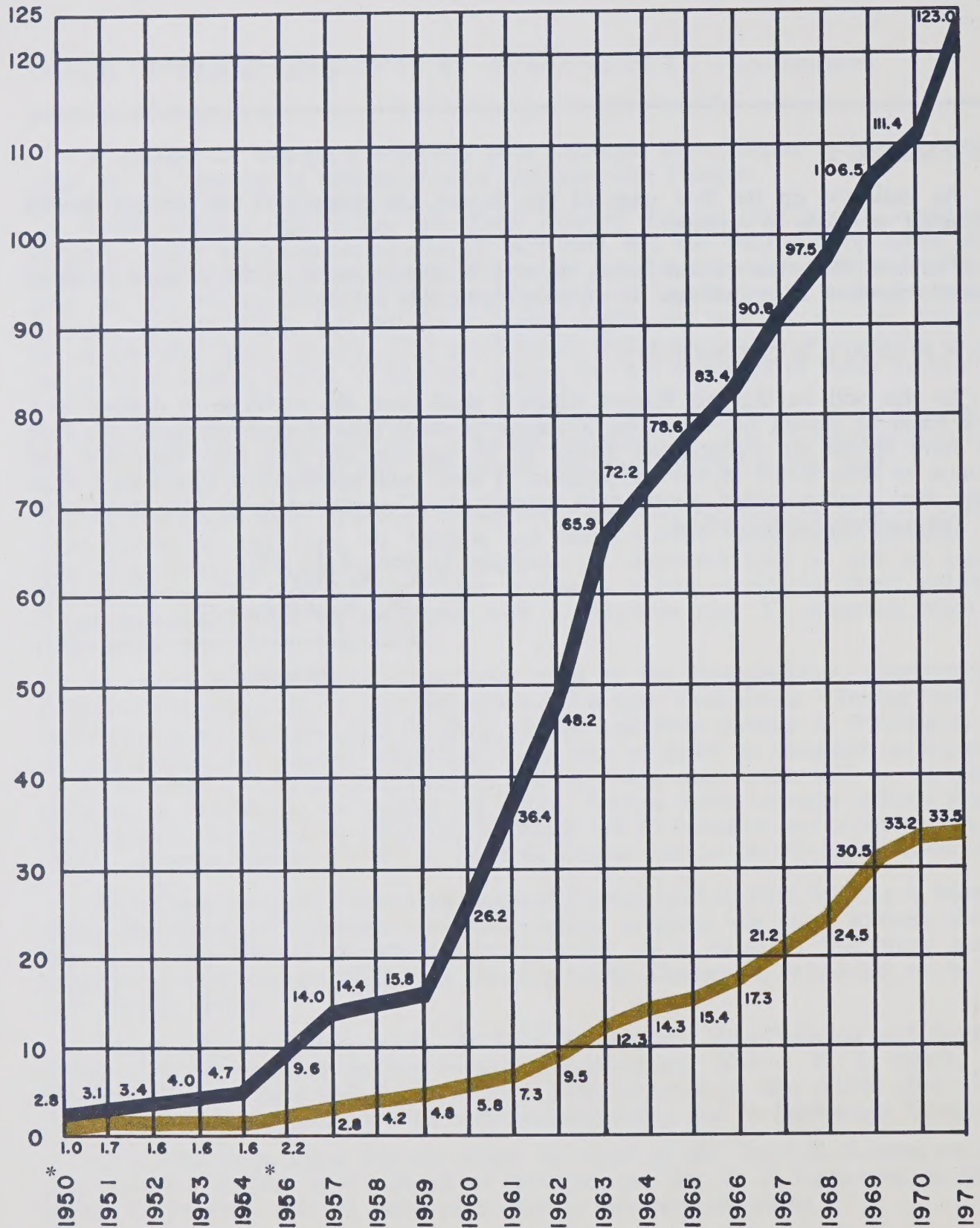
As this will be the last Report which I shall have the privilege of making as I retire today, I should like to direct a special personal note of gratitude to all the Staff who have served the Corporation during its 21 years of life with such dedication and devotion to their duties in the Corporation. I have been privileged to lead such a team whose work and unstinted efforts have brought the Corporation to its high standing in the Telecommunications world.

A handwritten signature in dark ink, appearing to read "J. H. Lewis", is written over a horizontal line.

President.

CAPITAL INVESTMENT ANNUAL REVENUE

MILLIONS OF DOLLARS

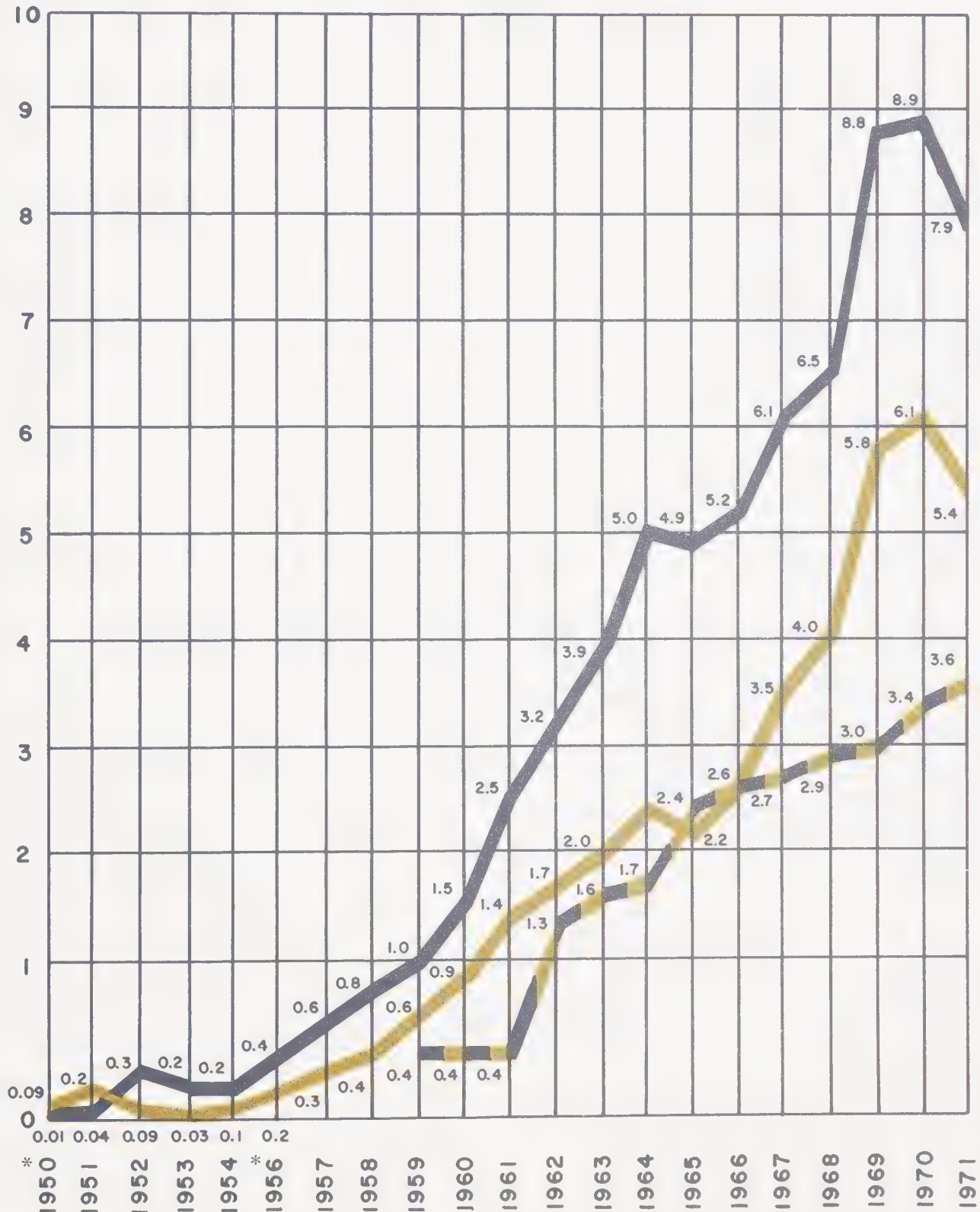


* 1950 = 9 MONTHS

* 1956 = 15 MONTHS

INTEREST CHARGES & INCOME TAX
 REPAYMENT OF GOVERNMENT ADVANCES
 NET PROFIT

MILLIONS OF DOLLARS



* 1950 = 9 MONTHS

* 1956 = 15 MONTHS

CANADIAN OVERSEAS TELECO

(ESTABLISHED BY THE CANADIAN OVERSEAS)

BALANCE SHEET AS

(with comparative figures)

ASSETS										1971	1970
Current :											
Cash	-	-	-	-	-	-	-	-	-	\$ 717,481	\$ 1,471,912
Short-term deposits	-	-	-	-	-	-	-	-	-	11,069,125	9,800,000
Accounts receivable	-	-	-	-	-	-	-	-	-	8,797,812	6,367,738
Prepaid expense	-	-	-	-	-	-	-	-	-	131,622	289,705
										<u>20,716,040</u>	<u>17,929,355</u>
Capital Assets, at cost : (Note 2)											
Land, with improvements	-	-	-	-	-	-	-	-	-	1,236,263	1,217,884
Buildings	-	-	-	-	-	-	-	-	-	9,313,822	9,082,924
Cable systems	-	-	-	-	-	-	-	-	-	62,185,567	58,060,560
International satellite system (Space segment)	-	-	-	-	-	-	-	-	-	10,100,283	6,962,765
Transmitters, receivers and other technical equipment	-	-	-	-	-	-	-	-	-	39,502,839	35,438,800
Office furniture and equipment	-	-	-	-	-	-	-	-	-	640,776	624,999
										<u>122,979,550</u>	<u>111,387,932</u>
Less : Accumulated depreciation	-	-	-	-	-	-	-	-	-	49,633,258	43,085,181
										<u>73,346,292</u>	<u>68,302,751</u>
										<u>94,062,332</u>	<u>86,232,106</u>

The accompanying notes are an integral

Certified Correct : G. M. WATERHOUSE
Vice-President, Finance and Secretary

Approved : W. S. PIPES
Director
GILLIS PURCELL
Director

COMMUNICATION CORPORATION

(ELECTROCOMMUNICATION CORPORATION ACT)

AT MARCH 31, 1971

(at March 31, 1970)

LIABILITIES		1971	1970
Current :			
Accounts payable - - - - -		\$ 5,532,528	\$ 2,686,348
Income and other taxes - - - - -		109,252	850,020
Estimated amount due to Commonwealth Network (Note 1) - - - - -		3,213,707	(598,824)
		<u>8,855,487</u>	<u>2,937,544</u>
Deferred income tax (Note 3) - - - - -		<u>2,566,332</u>	<u>2,404,688</u>
Proprietary Equity of Canada :			
Advances under section 14 of the Act (Note 4) - -		<u>42,314,929</u>	<u>45,919,351</u>
Surplus :			
Balance at beginning of the year - - - - -		34,970,523	29,057,619
Less : Prior year's adjustment of excess of applicable expenditures over Corporation's share of total Commonwealth Network expense less income tax thereon - - - - -		—	219,540
		<u>34,970,523</u>	<u>28,838,079</u>
Add : Net Income for the year, per Statement of Income and Expense - - - - -		5,355,061	6,132,444
Balance at end of the year - - - - -		<u>40,325,584</u>	<u>34,970,523</u>
		<u>82,640,513</u>	<u>80,889,874</u>
		<u>94,062,332</u>	<u>86,232,106</u>

part of the financial statements.

I have examined the above Balance Sheet and the related Statement of Income and Expense and have reported thereon under date of June 14, 1971 to the Acting Minister of Communications.

GEORGE LONG
for Auditor General of Canada.

CANADIAN OVERSEAS TELECOMMUNICATION CORPORATION

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDED MARCH 31, 1971

(with comparative figures for the year ended march 31, 1970)

Income —	1971	1970
Telegraph, telephone, telex, circuit rentals, satellite, etc.	<u>\$33,582,193</u>	<u>\$33,155,108</u>
Expense —		
Operating salaries and wages - - - - -	5,540,724	5,037,675
Administrative salaries - - - - -	2,079,065	1,791,209
Employee benefits - - - - -	568,269	474,711
Depreciation - - - - -	6,426,700	7,255,017
Rental of circuits, etc. - - - - -	5,994,714	4,209,618
Maintenance and repairs — plant and equipment - -	3,160,380	2,495,132
Interest - - - - -	2,277,301	2,457,920
Other operating and administrative expense - - - -	<u>1,147,185</u>	<u>880,662</u>
	<u>27,194,338</u>	<u>24,601,944</u>
Deduct :		
Estimated amount recoverable from Commonwealth Network — excess of applicable expenditures over Corporation's share of total Commonwealth Network expense - - - - -	3,400,000	3,275,000
Portion of expense capitalized- - - - -	<u>1,221,206</u>	<u>774,280</u>
	<u>4,621,206</u>	<u>4,049,280</u>
	<u>22,573,132</u>	<u>20,552,664</u>
	11,009,061	12,602,444
Provision for income tax (Note 3) - - - - -	<u>5,654,000</u>	<u>6,470,000</u>
Net Income - - - - -	<u><u>5,355,061</u></u>	<u><u>6,132,444</u></u>

The accompanying notes are an integral part of the financial statements.

CANADIAN OVERSEAS TELECOMMUNICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS MARCH 31, 1971

1. The amounts recoverable from Commonwealth Network have been finalized to March 31, 1962, with the recoveries of the succeeding years being reflected on an estimated basis.
2. As at March 31, 1971, the estimated cost of completing capital projects, as approved by Order in Council P.C. 1971-368 of February 25, 1971, amounted to approximately \$66,500,000 of which \$21,500,000 relates to the year ending March 31, 1972.
3. The Corporation records depreciation in its accounts based on the expected useful life of its capital assets but, in calculating its liability for income tax, claims the maximum capital cost allowance permitted under the Income Tax Act. The deferred income tax account is credited with the income tax payable on the excess of capital cost allowance over depreciation and is charged when the converse prevails.
4. The advances from Canada are repayable in semi-annual instalments over varying periods in accordance with the terms and conditions laid down by the Governor in Council. The repayments during the year ended March 31, 1971 totalled \$3,604,422 and instalments falling due for repayment in the ensuing year aggregate \$2,303,777.
5. Included in the expense for 1970-71 are : remuneration of executive officers, \$174,966; and directors' fees, \$2,000.

AUDITOR'S REPORT

Ottawa, June 14, 1971.

THE HONOURABLE GÉRARD PELLETIER,
ACTING MINISTER OF COMMUNICATIONS,
OTTAWA.

Sir,

I have examined the accounts and financial statements of the Canadian Overseas Telecommunication Corporation for the year ended March 31, 1971. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In compliance with the requirements of section 87 of the Financial Administration Act, I report that, in my opinion :

- (a) proper books of account have been kept by the Corporation;
- (b) the financial statements of the Corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the Corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the Corporation for the financial year; and
- (c) the transactions of the Corporation that have come under my notice have been within the powers of the Corporation under the Financial Administration Act and any other Act applicable to the Corporation.

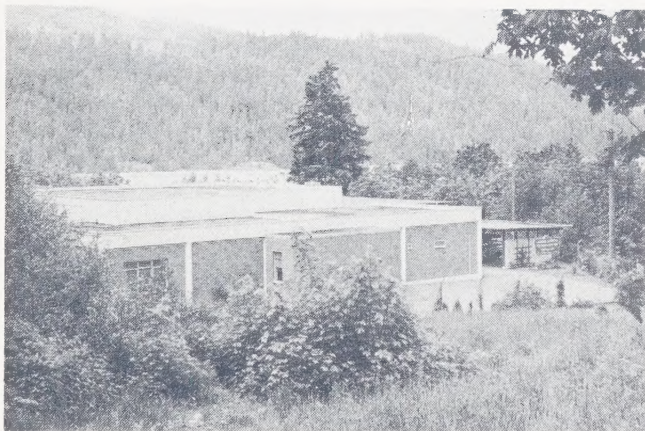
Yours faithfully,

GEORGE LONG
for Auditor General of Canada.

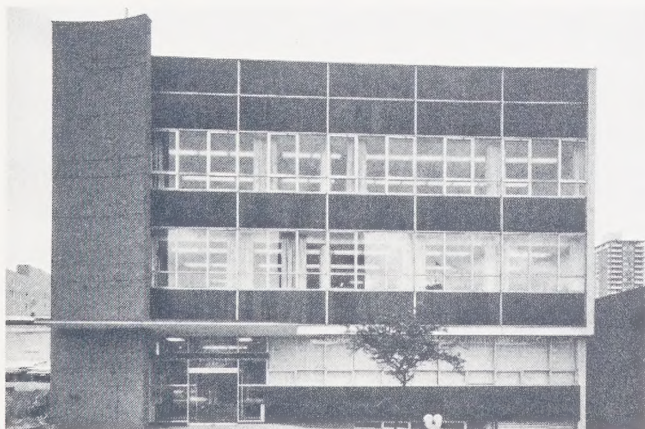
STATIONS



Keawaula Station, situated 45 miles from the city of Honolulu, was built in 1962 and serves as a cable relay station for the Commonwealth Pacific Cable System (COMPAC) operating between Canada, New Zealand and Australia. It also serves as the interconnecting point for traffic with non-Commonwealth Pacific areas.

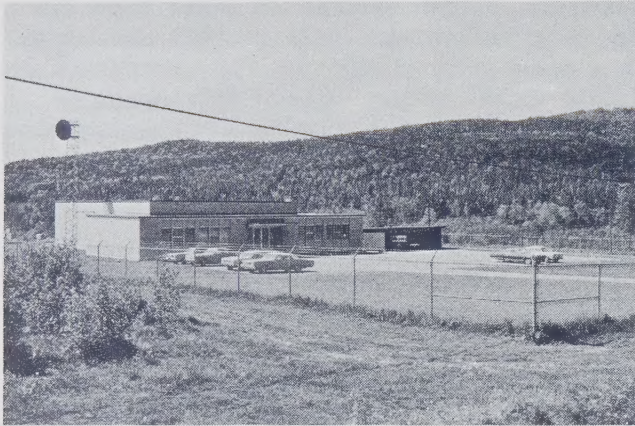


Port Alberni Station was built in 1958 as a Telegraph Repeater Station. In 1962 the building was extended to serve as terminal for the Commonwealth Pacific Cable System (COMPAC).

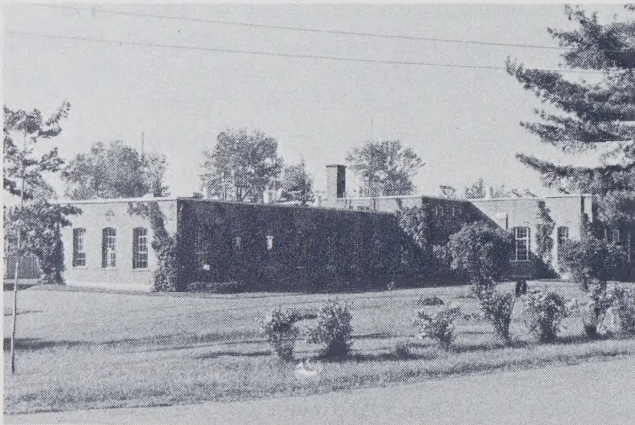


Vancouver building, opened in 1956, serves as the terminal for our West Coast operations. The facilities provided include telephone and telex switching centres. The Corporation's sales and marketing offices for the Western area are also located in the building.

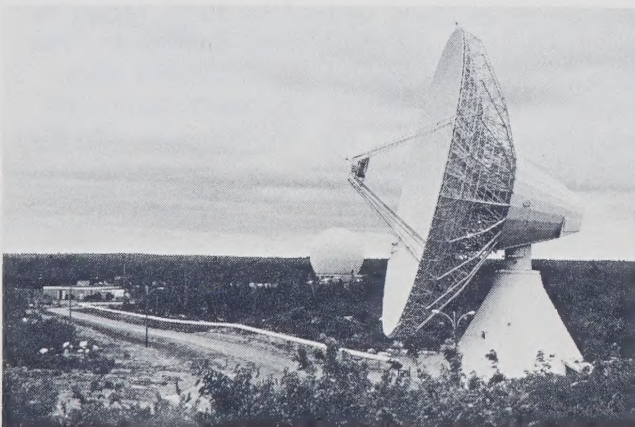
STATIONS



Corner Brook Station, Newfoundland, opened in 1959, serves as terminal for the Canada-Britain Cable System (CANTAT) and for the Canada-Greenland-Iceland Cable System (ICECAN).



Drummondville Transmitting Station in Quebec, initially brought into service in 1926 by the Canadian Marconi Company and transferred to C.O.T.C. in 1950, is located within Drummondville South. Together with the Receiving Station at Yamachiche, it provides all of the HF Radio services operated by the Corporation at this time.



The Earth Station at Mill Village, N.S., was built in 1965 for the Department of Transport as an experimental station and by agreement has been used by the Corporation for commercial operations since June 1966. The building was extended and a second antenna was built by C.O.T.C. in 1969. Both antennas are operating to INTELSAT Satellites positioned over the Atlantic Ocean. The station also serves as the terminal for the Canada-Bermuda Cable System (CANBER) which was brought into operation in May 1971.

OFFICERS

FINANCE

R. E. CLOUTIER, B.COM., C.A.
Executive Assistant

R. H. Z'GRAGGEN, B.COM., C.A.
Comptroller

A. D. HAWKINS
Manager, Personnel

G. C. BAXTER
Purchasing Agent

SECRETARY, TARIFFS AND TRAFFIC

N. T. BYRNE, R.I.A.
Executive Assistant

F. A. MATTHEWS
Executive Assistant

R. E. GREVILLE
Property Manager

ENGINEERING AND OPERATIONS

D. V. DORAN-VEEVERS, ENG.
Executive Assistant

J. S. CRISPIN, ENG.
Chief Engineer, Engineering

V. O'HAGAN
Chief, Operations

B. D. READ
Area Manager, Western Area

J. J. VIENNEAU, B.Sc.
Area Manager, Eastern Area

L. P. CRANKTHORP
Superintendent of Operations

COMMERCIAL DIVISION

M. A. CARON
Manager

BRANCH OFFICES

Corner Brook, Nfld.

St. John's, Nfld.

Halifax, N.S.

Mill Village, N.S.

Grosses Roches, Que.

Yamachiche, Que.

Drummondville, Que.

Toronto, Ont.

Winnipeg, Man.

Vancouver, B.C.

Port Alberni, B.C.

Keawaula, Hawaii
